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SUBJECT: TAIWAN CROSS-STRAIT POLICY EXPERTS HIGHLIGHT
SIGNIFICANCE OF ECONOMIC NEGOTIATIONS WITH CHINA

Classified By: AIT Economic Chief Hanscom Smith for reasons 1.4 (b) and (d).

¶11. (SBU) SUMMARY. In recent meetings with AIT officers, senior staff at Taiwan's Mainland Affairs Council (MAC) and Straits Exchange Foundation (SEF) underscored what they characterize as generally favorable public perceptions of Ma administration efforts to pursue closer economic integration with the PRC. One contact cited the cross-Strait law enforcement cooperation agreement between SEF and the Association for Relations Across the Taiwan Strait (ARATS), its PRC counterpart, as an example of Beijing's newly pragmatic attitude toward Taiwan. Although our MAC and SEF contacts cannot confirm if a cross-Strait Economic Cooperation Framework Agreement (ECFA) will be on the agenda for the next round of SEF-ARATS talks, they maintain that Taiwan and the PRC will conclude such a pact by 2010. END SUMMARY.

Context: Cross-Strait Economic Ties Strengthening

¶12. (C) According to MAC Director of Policy Planning, James Chu (Chu Shi), Taiwan's export-driven economy will continue to rely on greater access to the PRC's domestic market. Chu said trade with China created a US\$67 billion surplus for Taiwan in 2008, and exports to the PRC accounted for nearly 40 percent of Taiwan's total exports. Chu noted that six of the top ten exporters from the Mainland are Taiwan-owned businesses. At the same time, he emphasized that the Ma administration realizes Taiwan must not "put all its eggs in one basket." Although Taiwan must compete with South Korea and southeast Asian competitors for market share in the PRC, it must also enhance its ability to compete globally, rather than relying on exports to the PRC to drive long-term economic growth.

¶13. (C) SEF Deputy Secretary General Maa Shaw-chang echoed Chu's statements, telling us recently that Ma administration cross-Strait economic policy reflects the reality that demand for Taiwan's exports in the U.S. and Europe continues to be depressed. Taiwan has no choice but to look to the PRC for trade and investment, said Maa.

SEF-ARATS Agreements Benefit Taiwan

¶14. (C) Nine agreements on topics ranging from direct flights to judicial and law enforcement cooperation and one joint statement on liberalizing restrictions on Mainland investment in Taiwan have resulted from the first three rounds of

negotiations between SEF and ARATS over the past year. A fourth meeting will be held in Taiwan later this year, though the date has yet to be agreed by both sides, according to both MAC's Chu and SEF's Ma. (Note: In contradiction to Taiwan media reports, our contacts have repeatedly told us that the date and location for the fourth round of talks is as yet undetermined) According to Chu, the agreements establishing direct cross-Straight passenger and cargo flights and shipping will make it easier for Taiwan firms to compete with South Korean and ASEAN businesses in China.

¶15. (C) Regarding the law enforcement cooperation agreement, Chu said the PRC was at first reluctant to address an issue that relates to the larger issue of sovereignty. Judicial cooperation, however, is a top priority for the population of Taiwan and the Ma administration, said Chu. He cited MAC polls that show 82 percent of Taiwan people consider judicial cooperation with the PRC to be of utmost importance, especially since many of Taiwan's economic criminals escape to the PRC. Chu claims that the PRC monitors MAC's public website, which posts the poll results, and because of this Beijing officials realized the importance of judicial cooperation to Taiwan. Therefore, they were willing to negotiate an agreement, despite its sovereignty implications, in order to show good will to the people of Taiwan and the Ma administration, according to Chu. Chu said the agreement, which focuses on information exchange and return of suspects, benefits both Taiwan and the PRC by facilitating resolution of often complex crimes.

ECFA Timing Uncertain

¶16. (C) Despite some opposition in Taiwan, the Ma administration is pushing for ECFA to ensure Taiwan's economic competitiveness, said MAC's Chu. Chu said that it is unclear if ECFA will be on the agenda for the fourth round of talks between SEF Chairman P.K. Chiang and ARATS Chairman Chen Yunlin. SEF's Maa also said that, to his knowledge, no decision has been reached about whether or not to address ECFA in the SEF-ARATS forum.

¶17. (C) According to Chu, Taiwan is internally split, along party lines, over the merits of ECFA. In order to appease the island's farming community and supporters of the opposition DPP, said Chu, the Ma administration has set three conditions for negotiating ECFA: Taiwan will not open its agricultural sector to imports from China; Taiwan will not open its unskilled labor market to workers from China; and only economic issues will be addressed in any ECFA negotiations. Certain industry sectors, including petrochemicals, machinery, and possibly textiles, will be the focus of an "early harvest" program, said Chu. In a separate meeting with Economic Chief, a senior Ministry of Economic Affairs (MOEA) official said the Ma administration's pledge not to allow PRC agricultural imports will only apply to the first iteration of ECFA, and that agricultural market access will be the topic of future ECFA-related discussions. The MOEA official stressed that the administration will not make this distinction public given widespread expected domestic opposition to increased market access for PRC agricultural products.

¶18. (C) Both MAC's Chu and SEF's Maa expressed confidence that ECFA, or some form of broad economic cooperation agreement, would be signed by Taiwan and the PRC by 2010. Maa told us that concluding an agreement on economic cooperation with the PRC is the highest priority of the Ma administration. MAC officials continue to assert that 2010 is the target deadline for signing ECFA, although none have been able to state whether PRC officials concur on the timing. On a recent visit to the U.S., MAC Chairwoman Lai Shin-yuan was quoted as saying an ECFA will not be signed until 2010.

Comment

9 (C) Chu and Maa's comments reflect ongoing Ma

administration uncertainty about the timing, scope, and content of ECFA. Both Chu and Maa were frank in assessing the results of cross-Straits economic talks to date, and in describing public perception of the Ma administration's policies on economic cooperation with China. Chu acknowledged that future talks between SEF and ARATS will become more challenging as both sides move beyond fairly straightforward issues to ones that have political overtones. He also maintained that the PRC is often willing to back down on some issues during negotiations in order to trade possible economic gains for political advantage. End Comment.

WANG